

Buena Vista Regional Medical Center
Storm Lake, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2010 and 2009**

Together with Independent Auditor's Report

Buena Vista Regional Medical Center

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Buena Vista Regional Medical Center

Officials

June 30, 2010

Board of Trustees	Address	Term Expires
Glen Huntington, Chairman	Storm Lake, IA	2012
Edean Murray, Treasurer	Storm Lake, IA	2014
Rick Lampe, Secretary	Storm Lake, IA	2010
Dan Bacon	Storm Lake, IA	2014
Keith Movall	Newell, IA	2010
Randy Bobolz	Albert City, IA	2012
Brenda Halverson	Linn Grove, IA	2012

Hospital Officials	Address	Term Expires
Todd Hudspeth, CEO	Storm Lake, IA	Indefinite
Mike Dewerff, CFO	Storm Lake, IA	Indefinite

Independent Auditor's Report

To the Board of Trustees of
Buena Vista Regional Medical Center
Storm Lake, Iowa:

We have audited the accompanying basic financial statements of Buena Vista Regional Medical Center (Hospital), as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Buena Vista Regional Medical Center as of June 30, 2010 and 2009, and the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2010, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 9 and page 27 are not required parts of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information included in Exhibits 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Seim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
November 18, 2010.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2010, 2009, and 2008

This section of Buena Vista Regional Medical Center's (BVRMC) annual financial report presents background information and management's analysis of BVRMC's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the financial statements in this report, which follow.

Financial Highlights

- BVRMC's total assets increased by approximately \$2,954,000 or 5.1%, primarily due to the financial results for the year ended June 30, 2010.
- During the year, BVRMC's total operating revenues increased approximately \$4,970,000 to \$39,414,000, or 14.4%, from the prior year while expenses increased \$2,744,000, or 8.5%, to \$34,911,000. BVRMC had a gain from operations of \$4,502,000 which is 11.4% of total operating revenue. This compares to the prior fiscal year's gain from operations of approximately \$2,276,000.
- BVRMC received \$348,000 in County tax subsidies during the year that were used to fund the expense of operating 5 ambulances located in Storm Lake, Sioux Rapids, and Albert City.
- During the fiscal year, BVRMC made capital investments for a total of approximately \$9,284,000. The following is a list of significant items:

Capital Investments	Department	2010 Cost
Radiology Equipment/Expansion	Radiology	\$ 1,484,000
Department Remodel/Expansion	Surgery/Dietary	\$ 700,000
Computer Hardware and Software	Various	\$ 169,000
Department Remodel	OB	\$ 162,000
Facility Updates	Plant Operations	\$ 129,000

The source of the funding for these projects was derived from operations, capital reserves, revenue bonds, and Foundation and Auxiliary fund-raising.

Required Financial Statements

- The basic financial statements of BVRMC report information about BVMRC using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities.
- The Balance Sheets include all of BVRMC's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to BVRMC creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of BVRMC, and assessing the liquidity and financial flexibility of BVRMC.
- All of the current year's revenues and expenses are accounted for in the Statements of Revenue, Expenses, and Changes in Net Assets. This statement measures improvements in BVRMC's operations over the past 2 years and can be used to determine whether BVRMC has been able to recover all of its costs through its patient service revenue and other revenue sources.
- The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about BVRMC's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of BVRMC

The Balance Sheets and the Statements of Revenue, Expenses, and Changes in Net Assets report information about BVRMC's activities. These two statements report the net assets of BVRMC and changes in them. Increases or decreases in BVRMC's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in commercial insurance contracting should also be considered.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2010, 2009, and 2008

Net Assets

A summary of BVRMC's balance sheets are presented in Table 1 below:

Table 1: Condensed Balance Sheets

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Total current assets	\$ 16,594,000	15,697,000	14,208,000	897,000	6%
Net capital assets	25,438,000	24,093,000	19,793,000	1,345,000	7%
Other assets, including funded depreciation	<u>18,554,000</u>	<u>17,842,000</u>	<u>18,506,000</u>	<u>712,000</u>	4%
Total assets	<u>\$ 60,586,000</u>	<u>57,632,000</u>	<u>52,507,000</u>	<u>2,954,000</u>	5%
Current liabilities	\$ 6,154,000	7,886,000	6,944,000	(1,732,000)	-25%
Long-term debt	<u>5,605,000</u>	<u>6,023,000</u>	<u>5,171,000</u>	<u>(418,000)</u>	-8%
Total liabilities	11,759,000	13,909,000	12,115,000	(2,150,000)	-18%
Net assets	<u>48,827,000</u>	<u>43,723,000</u>	<u>40,392,000</u>	<u>5,104,000</u>	13%
Total liabilities and net assets	<u>\$ 60,586,000</u>	<u>57,632,000</u>	<u>52,507,000</u>	<u>2,954,000</u>	6%

As can be seen in Table 1, total assets increased by \$2,954,000 to \$60,586,000 in fiscal year 2010, up from \$57,632,000 in fiscal year 2009. The most significant increase was in net capital assets, which reflects the completion of the \$7.5 million surgery/dietary expansion project. The change in total net assets results primarily from operating results in the current year.

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of BVRMC's historical revenues and expenses for each of the fiscal years ended June 30, 2010, 2009 and 2008:

Table 2: Condensed Statement of Revenue, Expenses, and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenue:					
Net patient service revenue	\$ 37,844,000	33,083,000	33,059,000	4,761,000	14%
Other	<u>1,569,000</u>	<u>1,360,000</u>	<u>1,151,000</u>	<u>209,000</u>	15%
Net operating revenue	<u>39,413,000</u>	<u>34,443,000</u>	<u>34,210,000</u>	<u>4,970,000</u>	14%
Expenses:					
Salaries and employee benefits	18,245,000	17,256,000	17,040,000	989,000	6%
Professional fees	2,734,000	3,129,000	2,425,000	(395,000)	-13%
Supplies and other expenses	11,440,000	9,807,000	9,511,000	1,633,000	17%
Depreciation, amortization and interest	<u>2,492,000</u>	<u>1,975,000</u>	<u>1,970,000</u>	<u>517,000</u>	26%
Total operating expenses	<u>34,911,000</u>	<u>32,167,000</u>	<u>30,946,000</u>	<u>2,744,000</u>	9%
Operating income	4,502,000	2,276,000	3,264,000	2,226,000	98%
Non-operating Income	<u>602,000</u>	<u>893,000</u>	<u>1,213,000</u>	<u>(291,000)</u>	-33%
Net income	5,104,000	3,169,000	4,477,000	1,935,000	61%
Capital grants and contributions	--	162,000	90,000	(162,000)	-100%
Net assets – beginning of year	<u>43,723,000</u>	<u>40,392,000</u>	<u>35,825,000</u>	<u>3,331,000</u>	8%
Net assets – end of year	<u>\$ 48,827,000</u>	<u>43,723,000</u>	<u>40,392,000</u>	<u>5,104,000</u>	12%

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2010, 2009, and 2008

Sources of Revenue

Operating Revenue

During fiscal year 2010, BVRMC derived the majority, or 96.0%, of its total operating revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in BVRMC's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes rental income, cafeteria sales, and other miscellaneous services.

Table 3 presents the relative percentages of gross charges billed for patient services, by payor, for the fiscal years ended June 30, 2010, 2009, and 2008:

Table 3: Payor Mix by Percentage			
	Year Ended June 30,		
	2010	2009	2008
Medicare	46.60	49.50	52.00
Medicaid	9.30	7.40	7.10
Wellmark	31.70	28.50	24.10
Other Commercial	10.20	11.30	13.60
Self-pay and other	2.20	3.30	3.20
Total patient revenues	100.00	100.00	100.00

Other Revenue

Other revenue includes rental income, cafeteria sales, fitness center income and other miscellaneous services.

Table 4: Other Revenue

	Year Ended June 30,			Dollar Change	Percent Change
	2010	2009	2008		
Insurance proceeds	\$ 350,000	--	--	350,000	100%
Rental income	293,000	291,000	282,000	2,000	0.7%
Cafeteria/vending	317,000	305,000	152,000	12,000	3.9%
Rebates	98,000	161,000	222,000	(63,000)	-39.1%
Grants	66,000	151,000	171,000	(85,000)	-56.3%
Fitness center	121,000	136,000	127,000	(15,000)	-11.0%
Contracted services	170,000	182,000	60,000	(12,000)	-6.6%
Other	154,000	134,000	137,000	20,000	14.9%
Total	\$ 1,569,000	1,360,000	1,151,000	209,000	15.4%

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2010, 2009, and 2008

Non-operating Income

Non-operating income includes investment income and county tax subsidies. BVRMC holds funds in its balance sheets that are invested primarily in money market funds, CD's, and securities issued by the U.S. Treasury and other federal agencies. These investments earned \$294,000 during fiscal year 2010. BVRMC also received \$348,000 in county tax subsidy in fiscal year 2010.

Operating and Financial Performance

The following summarizes BVRMC's statements of revenue, expenses, and changes in net assets between 2010 and 2009:

- Overall activity at BVRMC, as measured by patient admissions, increased by 6.8% to 2,038 admissions in 2010, from 1,909 admissions in 2009. Patient days increased 1.7% from 8,628 in 2009 to 8,771 in 2010. Total outpatient procedures in the Emergency, Surgery, Radiology, Laboratory, and Rehab Departments increased 2.8% to 73,925 in 2010 compared to 71,895 in 2009.

Table 5: Patient and Hospital Statistical Data

	Year Ended June 30			Change	Percent Change
	2010	2009	2008		
Total Admissions:					
Acute	1,377	1,302	1,436	75	5.8%
Newborn	325	259	319	66	25.5%
Swing Bed	147	143	163	4	2.8%
Hope Harbor	189	205	212	(16)	-7.8%
Total Days Care					
Acute	4,033	4,033	4,727	--	0.0%
Newborn	699	550	671	149	27.1%
Swing Bed	689	683	877	6	0.9%
Hope Harbor	3,350	3,362	3,331	(12)	-0.4%
Average Daily Census					
Acute	11.1	11.1	12.9	--	0.0%
Newborn	1.9	1.5	1.8	0.4	26.7%
Swing Bed	1.9	1.9	2.4	--	0.0%
Hope Harbor	9.2	9.2	9.1	--	0.0%
Average Length of Stay					
Acute	2.9	3.1	3.3	(0.2)	-6.5%
Newborn	2.2	2.1	2.1	0.1	4.8%
Swing Bed	4.7	4.8	5.4	(0.1)	-2.1%
Hope Harbor	17.7	16.4	15.7	1	7.9%
Emergency Room Visits	7,248	7,954	8,153	(706)	-8.9%
Total Surgical Procedures	3,330	3,229	3,219	101	3.1%
Total Radiology Procedures	17,783	17,180	14,786	603	3.5%
Total Laboratory Procedures	87,319	86,879	89,522	440	0.5%
Home Health Visits	7,004	7,069	5,806	(65)	-0.9%
Full-time equivalents (FTE's)	322.49	319.53	310.92	3	0.9%

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2010, 2009, and 2008

Total net patient service revenue increased \$4,761,000, or 14.4%, in 2010 to \$37,844,000.

Gross patient revenue increased \$5,889,000, or 10.5% from prior year primarily due to increased patient volume and rate increases, and net patient service revenue increased \$4,761,000 due to increases in gross patient revenue described above. Contractual adjustments as a percent of gross revenue decreased from 37.1% in 2009 to 35.2% in 2010, primarily due to the removal of \$1,750,000 in Medicare allowances that are no longer necessary as a result of final settlements.

Contractual Adjustments increased over prior year as described in the table below:

Table 6: Contractual Adjustments Summary

	Year Ended June 30			Dollar Change	Percent Change
	2010	2009	2008		
Medicare	\$ 11,778,000	12,478,000	12,586,000	(700,000)	-5.6%
Medicaid	1,973,000	1,559,000	1,697,000	414,000	26.6%
Wellmark and other commercial	8,056,000	6,779,000	4,731,000	1,277,000	18.8%
Other Adjustments and charity care	738,000	643,000	578,000	95,000	14.8%
Total	\$ 22,545,000	21,459,000	19,592,000	1,086,000	5.1%

Days in accounts receivable decreased from 57 days in fiscal year 2009 to 47 days in fiscal year 2010.

Salary expenses increased \$665,000 or 4.8% to \$14,487,000 in 2010 from \$13,822,000 in 2009. As a percentage of net patient service revenue, salary expense was 38.3% and 41.8% for the fiscal years ended June 2010 and 2009, respectively.

Employee benefit expense increased \$325,000, or 9.5%. Employee benefit expense represented 25.9% and 24.8% of salary expenses in fiscal years 2010 and 2009 respectively.

Supplies and other expense increased \$1,632,000, or 16.6% from prior year. As a percentage of net patient service revenue, supplies expense increased slightly to 30.2% in fiscal year 2010, from 29.6% in fiscal year 2009.

Professional fees and Purchased services decreased \$395,000, or 12.6%, primarily due to bringing MRI services in-house. This service was previously contracted.

Depreciation increased by \$433,000, or 22.1% in 2010, primarily due to depreciation on MRI equipment, and construction in OB and Surgery. Interest expense increased \$84,000 to \$94,000 in 2010 from \$10,000 in 2009, primarily due to expensing of the 2007 Revenue Bonds interest, which had previously been capitalized.

Total operating expenses increased by \$2,745,000, or 8.5%, for the year ended June 30, 2010 for the reasons discussed above.

Budgetary Highlights

The official county budget of BVRMC for the year ended June 30, 2010 was prepared on a modified accrual basis. BVRMC expenditures during 2010, 2009 and 2008 did not exceed amounts budgeted.

Actual expenditures were lower than the budget by \$3,976,000 due to lower than anticipated operating expenses. Actual revenues were lower than budgeted by \$2,432,000.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2010, 2009, and 2008

Capital Assets

During fiscal year 2010, BVRMC invested \$9,284,000 in a broad range of capital assets included in Table 7 below.

Table 7: Capital Assets

	2010	2009	2008	Dollar Change	Percent Change
Land and Land Improvements	\$ 1,870,000	1,759,000	1,551,000	111,000	6%
Buildings and Fixed Equipment	31,402,000	28,555,000	24,640,000	2,847,000	10%
Major Movable Equipment	<u>13,482,000</u>	<u>11,671,000</u>	<u>10,952,000</u>	<u>1,811,000</u>	16%
Subtotal	46,754,000	41,985,000	37,143,000	4,769,000	11%
Less: Accumulated Depreciation	<u>25,088,000</u>	<u>23,624,000</u>	<u>22,064,000</u>	<u>1,464,000</u>	6%
Net Property, Plant, and Equipment	<u>\$ 21,666,000</u>	<u>18,361,000</u>	<u>15,079,000</u>	<u>3,305,000</u>	18%
Construction in Progress	<u>\$ 3,772,000</u>	<u>5,732,000</u>	<u>4,714,000</u>	<u>(1,960,000)</u>	-34%

Net property, plant, and equipment increased as a result of the cost of new additions exceeding annual depreciation expense. BVRMC has enhanced existing facilities and upgraded surgery, radiology, labor and delivery, and computer equipment. The decrease in Construction in Progress is due to new construction for an expansion and remodel of the surgery and radiology services and remodeling of the OB department being put into services.

In Table 8, BVRMC's fiscal year 2011 capital budget projects spending up to \$2,393,000 for capital projects. These projects will be primarily financed through internal reserves, and fundraising. More information about BVRMC's capital assets is presented in the notes to the basic financial statements.

Table 8: Fiscal Year 2011 Capital Budget

Computer Hardware and Software	\$ 1,181,000
Surgery Equipment	315,000
Pharmacy Dispensing Equipment	200,000
Facility Improvements	190,000
Radiology Equipment	161,000
All other Capital Additions	<u>346,000</u>
	<u>\$ 2,393,000</u>

Long-Term Debt (including Capital Leases)

At June 30, 2010, BVRMC had \$6,023,000 in short-term and long-term debt. This has decreased \$396,000 from fiscal year 2009, as a result of payments on existing debt. More detailed information about BVRMC's long-term liabilities is presented in the notes to the basic financial statements. Total debt outstanding represents approximately 9.9% of BVRMC's total assets at June 30, 2010.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2010, 2009, and 2008

Contacting BVRMC's Chief Financial Officer

This financial report is designed to provide our citizens, customers, and creditors with a general overview of BVRMC's finances and to demonstrate BVRMC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Krista Ketcham
Chief Financial Officer
Buena Vista Regional Medical Center
1525 W. 5th St.
Storm Lake, IA 50588
(712) 213-8603
Ketcham.Krista@bvrmc.org

Buena Vista Regional Medical Center

Balance Sheets

June 30, 2010 and 2009

ASSETS	2010	2009
Current assets:		
Cash and cash equivalents	\$ 6,714,586	5,389,617
Investments	2,818,729	2,404,250
Receivables -		
Patient, net of allowance for doubtful accounts of \$1,791,000 in 2010 and \$1,860,236 in 2009	4,886,283	5,127,731
Other receivables	43,081	176,299
Inventory	1,007,087	936,219
Prepaid expenses	310,888	252,137
Succeeding year property tax receivable	358,145	336,177
Internally designated assets	454,962	1,074,934
Total current assets	<u>16,593,761</u>	<u>15,697,364</u>
Assets limited as to use or restricted:		
Internally designated assets	18,496,971	18,384,900
Bond restricted funds	400,000	400,000
Donor restricted funds	49,351	64,664
	<u>18,946,322</u>	<u>18,849,564</u>
Less amount required to meet current obligations	<u>454,962</u>	<u>1,074,934</u>
Total assets limited as to use or restricted, net of current portion	<u>18,491,360</u>	<u>17,774,630</u>
Capital assets, net	<u>25,438,013</u>	<u>24,093,123</u>
Deferred financing costs	<u>63,247</u>	<u>66,896</u>
Total assets	<u><u>\$ 60,586,381</u></u>	<u><u>57,632,013</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 417,479	396,099
Accounts payable	1,565,740	1,922,306
Accrued salaries and vacation	1,442,063	1,374,836
Accrued health insurance	242,000	242,000
Payroll taxes withheld and other accrued expenses	335,591	304,175
Estimated third-party payor settlements	1,793,330	3,311,064
Deferred revenue for succeeding year property tax receivable	358,145	336,177
Total current liabilities	<u>6,154,348</u>	<u>7,886,657</u>
Long-term liabilities:		
Long term debt, net of current portion	<u>5,605,301</u>	<u>6,022,780</u>
Total liabilities	<u>11,759,649</u>	<u>13,909,437</u>
Net assets:		
Invested in capital assets, net of related debt	19,415,233	17,674,244
Restricted	49,351	64,664
Unrestricted	<u>29,362,148</u>	<u>25,983,668</u>
Total net assets	<u>48,826,732</u>	<u>43,722,576</u>
Total liabilities and net assets	<u><u>\$ 60,586,381</u></u>	<u><u>57,632,013</u></u>

See notes to financial statements

Buena Vista Regional Medical Center

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE:		
Net patient and service revenue before provision for bad debt	\$ 39,443,274	34,640,761
Provision for bad debt	<u>(1,599,184)</u>	<u>(1,557,427)</u>
Net patient and service revenue	37,844,090	33,083,334
Other operating revenue	<u>1,569,420</u>	<u>1,359,640</u>
Total operating revenue	<u>39,413,510</u>	<u>34,442,974</u>
OPERATING EXPENSES:		
Salaries	14,486,967	13,821,935
Employee benefits	3,758,485	3,433,515
Purchased services and professional fees	2,734,355	3,128,983
Supplies	8,177,133	7,020,174
Other expenses	3,262,774	2,787,451
Depreciation and amortization	2,397,964	1,964,732
Interest	<u>94,165</u>	<u>9,817</u>
Total operating expenses	<u>34,911,843</u>	<u>32,166,607</u>
OPERATING INCOME	<u>4,501,667</u>	<u>2,276,367</u>
NONOPERATING REVENUES (EXPENSES), NET:		
County tax revenues	348,213	349,732
Investment income	294,101	549,024
Noncapital grants and contributions	15,313	11,898
Loss on disposal of capital assets	<u>(55,138)</u>	<u>(18,063)</u>
Nonoperating revenues, net	<u>602,489</u>	<u>892,591</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	5,104,156	3,168,958
CAPITAL GRANTS AND CONTRIBUTIONS	<u>--</u>	<u>161,489</u>
INCREASE IN NET ASSETS	5,104,156	3,330,447
NET ASSETS, beginning of year	<u>43,722,576</u>	<u>40,392,129</u>
NET ASSETS, end of year	<u>\$ 48,826,732</u>	<u>43,722,576</u>

See notes to financial statements

Buena Vista Regional Medical Center

Statements of Cash Flows

For the Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patient services and third party payors	\$ 36,567,804	33,694,876
Cash paid for employee salaries and benefits	(18,146,809)	(17,397,280)
Cash paid to suppliers and contractors	(13,993,712)	(13,264,738)
Other receipts and payments, net	1,702,638	1,391,953
Net cash provided by operating activities	6,129,921	4,424,811
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County tax receipts	348,213	349,732
Noncapital grants and contributions	15,313	11,898
Net cash provided by noncapital financing activities	363,526	361,630
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and contributions	--	161,489
Payments on capital lease obligations	(226,099)	(496,168)
Payments on long-term debt	(170,000)	(145,000)
Interest payments	(94,165)	(9,817)
Purchase of property and equipment, net	(4,461,078)	(4,218,365)
Net cash used in capital and related financing activities	(4,951,342)	(4,707,861)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	294,101	549,024
Deposits to investments, net	(414,479)	(265,293)
(Deposits to) withdrawals from assets limited as to use or restricted, net	(96,758)	273,983
Net cash provided by (used in) investing activities	(217,136)	557,714
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,324,969	636,294
CASH AND CASH EQUIVALENTS - Beginning of year	5,389,617	4,753,323
CASH AND CASH EQUIVALENTS - End of year	\$ 6,714,586	5,389,617
NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
The Hospital capitalized interest expense in the following amounts	173,814	276,432
The Hospital entered into capital lease obligations for new equipment in the following amounts	--	1,473,879

See notes to financial statements

Buena Vista Regional Medical Center

Statements of Cash Flows (Continued) For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 4,501,667	2,276,367
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	2,397,964	1,964,732
Interest expense included in operating expenses	94,165	9,817
(Increase) decrease in current assets -		
Receivables -		
Patients	241,448	(147,092)
Other	133,218	32,313
Inventories	(70,868)	13,312
Prepaid expenses	(58,751)	(98,558)
Increase (decrease) in current liabilities -		
Accounts payable	310,169	(242,884)
Accrued salaries, vacation, payroll taxes withheld and other	98,643	(141,830)
Estimated third-party payor settlements	<u>(1,517,734)</u>	<u>758,634</u>
Net cash provided by operating activities	<u>\$ 6,129,921</u>	<u>4,424,811</u>

See notes to financial statements

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2010 and 2009

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a description of the reporting entity and a summary of significant accounting policies of Buena Vista Regional Medical Center (Hospital). These policies are in accordance with generally accepted accounting principles. The Hospital is a county Critical Access Hospital with related healthcare ancillary and outpatient services. The Hospital is organized under Chapter 347 of the Iowa Code and is governed by a seven member board of trustees elected for six year terms.

A. *Reporting Entity*

For financial reporting purposes, Buena Vista Regional Medical Center has included all the funds of the Hospital, specifically all assets, liabilities, revenue, and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. Buena Vista Regional Medical Center has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. *Basis of Presentation*

The balance sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets – This component of net assets results when constraints are placed on net assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets not meeting the definition of the two proceeding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2010 and 2009

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows include investments highly liquid instruments with an original maturity of three months or less, excluding amounts limited as to use by the Board of Trustees, donor, or debt agreements.

G. Patient Receivables, Net

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. Inventory

Inventory is stated at the lower of cost, determined by the first-in, first-out method, or market.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2010 and 2009

I. Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

J. Assets Limited as to Use or Restricted

By Board of Trustees – Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and equipment. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

By Hospital Revenue Bond Agreement – These funds are reserve funds held as security for the Series 2007 Hospital Revenue Bonds (Series 2007 bonds). These funds are used for the payment of principal and interest on the Series 2007 bonds when insufficient funds are available.

By Donor – These funds consist of contributed assets that have been restricted by the donor for specific capital improvements or operating activities.

K. Fair Value of Financial Instruments

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, assets limited as to use or restricted, accounts receivable, and accounts payable approximate fair value due to the relatively short period of time between their original and expected realization. Fair values of investments are based on quoted market prices, if available, or estimated using quoted market prices of similar securities. The carrying value of long-term debt approximates fair value since the interest rate closely reflects current market rates.

L. Investments

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses before capital grants and contributions unless the income is restricted by donor or law.

M. Capital Assets

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided in the straight-line method based upon useful lives set forth using general guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Lives range by capital asset classification as follows:

Land improvements	5 to 20 years
Buildings and building improvements	3 to 40 years
Equipment, computers, and furniture	3 to 20 years

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2010 and 2009

The Hospital's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as capital grants and contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restriction are reported when the donated or acquired long-lived assets are placed in service.

N. Deferred Financing Cost

Deferred financing costs related to the issuance of the Series 2007 bonds are being amortized over the life of the related bonds under the straight line method. Amortization expense of \$3,649 and \$3,949 for the years ended June 30, 2010 and 2009, respectively, is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net assets.

O. Compensated Absences

Hospital employees accumulate a limited amount of earned but unused paid time off (PTO) hours for subsequent use or for payment upon termination, death, or retirement and may be carried forward by an employee at a maximum amount ranging from 252 hours to 420 hours based on length of service. PTO is accrued as an expense and a liability as it is earned. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010 and 2009, respectively.

P. Deferred Revenue

Although certain revenue is measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

Q. Self-Insured Employee Health Benefits

The estimated losses from self-insured claims, including incurred but unreported claims, are accrued as the losses occur.

R. Income Taxes

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Buena Vista, Iowa. As such, the Hospital is exempt from paying income taxes.

S. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge or per ambulatory payment classification, reimbursed costs, discounted charges, and per diem payments. The Hospital has agreements with third-party payors who provide payment based on fee schedule amounts. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2010 and 2009

T. Grants and Contributions

From time to time, the Hospital receives contributions from Buena Vista Regional Medical Center Foundation, as well as grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met.

Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

U. Operating Revenue and Expenses

The Hospital's statement of revenue, expenses and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue result from exchange transactions associated with the provision of health care services – the Hospital's principal activity. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

V. Charity Care

To fulfill its mission of community service, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of these amounts determined to qualify as charity care, they are not reported in the statements of revenue, expenses and changes in net assets. Charges excluded from revenue under the Hospital's charity care policy were \$737,944 and \$642,395 for 2010 and 2009, respectively.

W. Insurance

The Hospital is commercially insured for property and casualty, general and professional liability and worker's compensation risks. The Hospital is self-insured under its employee group health program. Claims are charged to expense in the period in which they are incurred.

X. Subsequent Events

The Hospital considered events occurring through November 18, 2010 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Cash, Investments, and Assets Limited as to Use or Restricted

The Hospital's deposits in banks at June 30, 2010 and 2009 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2010 and 2009

The Hospital manages the following risks in accordance with their formal investment policy:

Credit Risk: The Hospital has invested in certificates of deposit and U.S. Government Agency securities. The value of these investments is determined based on market and economic conditions that can and will fluctuate from time to time.

Interest Rate Risk: The Hospital has a formal investment policy that limits investment maturities to 397 days or less as a means of managing its exposure to fair value losses arising from changes in interest rates for current operating funds (funds which are reasonably expected to be used for the operation of the Hospital within fifteen months). Funds not identified as operating funds may be invested in investments with maturities in excess of 397 days.

The weighted average duration of securities invested in U.S. Government Agencies was approximately 18 years as of June 30, 2010. The weighted average duration of securities invested in certificates of deposits was five months as of June 30, 2010.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Hospital's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Hospital's agent in the Hospital's name.

The composition of investments and assets limited as to use or restricted as of June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Investments (operating reserves):		
Cash and cash equivalents	\$ --	62,221
Certificates of deposit	2,800,885	2,313,904
Interest receivable	17,844	28,125
Total investments	<u>\$ 2,818,729</u>	<u>2,404,250</u>
Assets Limited as to Use or Restricted:		
By Board of Trustees for capital improvements:		
Cash and cash equivalents	\$ 6,572,458	6,064,137
Certificates of deposit	11,847,743	12,162,078
U.S. government agencies	21,251	25,292
Interest receivable	55,519	133,393
	18,496,971	18,384,900
By Hospital Revenue Bond Agreement:		
Cash and cash equivalents	400,000	400,000
By Donor:		
Cash and cash equivalents	49,351	64,664
Total assets limited as to use or restricted	18,946,322	18,849,564
Less amounts required to meet current obligations	454,962	1,074,934
Long-term portion	<u>\$ 18,491,360</u>	<u>17,774,630</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2010 and 2009

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2010 and 2009 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 292,608	544,736
Change in unrealized gains, net	<u>1,493</u>	<u>4,288</u>
Total investment return	<u>\$ 294,101</u>	<u>549,024</u>

(3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2008.

Medicaid - Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 13,979,907	12,775,680
Outpatient	40,166,137	37,012,264
Swingbed	869,976	832,250
Behavioral health	4,464,171	4,350,717
Hospice	<u>2,507,738</u>	<u>1,128,389</u>
Total gross patient service revenue	<u>61,987,929</u>	<u>56,099,300</u>
Contractual adjustments:		
Medicare	11,777,678	12,478,335
Medicaid	1,973,231	1,559,391
Other	8,055,802	6,778,418
Charity care services	<u>737,944</u>	<u>642,395</u>
Total contractual adjustments	<u>22,544,655</u>	<u>21,458,539</u>
Net patient service revenue before provision for bad debt	<u>\$ 39,443,274</u>	<u>34,640,761</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2010 and 2009

The Hospital reports net patient services revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounted for approximately 46.6% and 9.3%, respectively, of the Hospital's gross patient service revenue for the year ended June 30, 2010, and 49.5% and 7.4%, respectively, for the year ended June 30, 2009. The Hospital grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2010 net patient service revenue increased approximately \$1,750,000 due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years no longer subject to audits, reviews, and investigations.

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Patient accounts	\$ 9,834,283	9,934,967
Less estimated third-party contractual adjustments	(3,157,000)	(2,947,000)
Less allowance for doubtful accounts	<u>(1,791,000)</u>	<u>(1,860,236)</u>
	<u>\$ 4,886,283</u>	<u>5,127,731</u>

The Hospital grants credits without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	34%	32%
Medicaid	8	6
Commercial insurance	38	40
Patients and residents	<u>20</u>	<u>22</u>
	<u>100%</u>	<u>100%</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2010 and 2009

(5) Capital Assets

Capital assets and the related accumulated depreciation are summarized as follows:

	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 577,398	--	--	577,398
Construction in progress	5,731,940	3,502,991	(5,463,426)	3,771,505
Total capital assets, not being depreciated	6,309,338	3,502,991	(5,463,426)	4,348,903
Capital assets, being depreciated:				
Land improvements	1,181,249	111,499	--	1,292,748
Buildings	24,866,230	3,179,443	(455,116)	27,590,557
Fixed equipment	3,688,995	130,655	(8,742)	3,810,908
Major movable equipment	11,671,209	2,359,049	(547,872)	13,482,386
Total capital assets, being depreciated	41,407,683	5,780,646	(1,011,730)	46,176,599
Less accumulated depreciation:				
Land improvements	(585,777)	(64,769)	--	(650,546)
Buildings	(12,174,072)	(1,092,701)	412,027	(12,854,746)
Fixed equipment	(2,517,311)	(184,081)	3,803	(2,697,589)
Major movable equipment	(8,346,738)	(1,052,764)	514,894	(8,884,608)
Total accumulated depreciation	(23,623,898)	(2,394,315)	930,724	(25,087,489)
Total capital assets, being depreciated, net	17,783,785	3,386,331	(81,006)	21,089,110
Total capital assets, net	\$ 24,093,123	6,889,322	(5,544,432)	25,438,013
	June 30, 2008	Additions	Transfers and Disposals	June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 577,398	--	--	577,398
Construction in progress	4,713,917	5,286,019	(4,267,996)	5,731,940
Total capital assets, not being depreciated	5,291,315	5,286,019	(4,267,996)	6,309,338
Capital assets, being depreciated:				
Land improvements	973,264	207,985	--	1,181,249
Buildings	21,742,977	3,132,806	(9,553)	24,866,230
Fixed equipment	2,896,738	814,072	(21,815)	3,688,995
Major movable equipment	10,952,014	1,109,485	(390,290)	11,671,209
Total capital assets, being depreciated	36,564,993	5,264,348	(421,658)	41,407,683
Less accumulated depreciation:				
Land improvements	(526,170)	(59,607)	--	(585,777)
Buildings	(11,315,256)	(861,993)	3,177	(12,174,072)
Fixed equipment	(2,258,929)	(274,600)	16,218	(2,517,311)
Major movable equipment	(7,963,279)	(764,583)	381,124	(8,346,738)
Total accumulated depreciation	(22,063,634)	(1,960,783)	400,519	(23,623,898)
Total capital assets, being depreciated, net	14,501,359	3,303,565	(21,139)	17,783,785
Total capital assets, net	\$ 19,792,674	8,589,584	(4,289,135)	24,093,123

Total depreciation for the year ended June 30, 2010 and 2009, including depreciation on rental property owned by the Hospital, was \$2,394,315 and \$1,960,783, respectively.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2010 and 2009

During the fiscal year 2009, the Hospital began the relocation of the nutrition department to an area of the Hospital previously not constructed, and renovation of the previous nutrition space for the surgery department. The estimated cost of the construction and renovation is approximately \$8,000,000. Various phases of the project have been placed into service as of June 30, 2010 and final completion is expected in early fiscal year 2011. The project is financed with \$5,090,000 in revenue bonds with the difference financed with operations.

(6) Long-Term Debt

Capital lease obligations activity of the Hospital as of June 30, 2010 and 2009 consisted of the following:

	June 30, 2009	Borrowings	Payments	June 30, 2010	Due Within One Year
Series 2007 hospital revenue bonds (A)	\$ 4,945,000	--	(170,000)	4,775,000	180,000
Capital lease obligation (C)	1,473,879	--	(226,099)	1,247,780	237,479
	<u>\$ 6,418,879</u>	<u>--</u>	<u>(396,099)</u>	<u>6,022,780</u>	<u>417,479</u>
	June 30, 2008	Borrowings	Payments	June 30, 2009	Due Within One Year
Series 2007 hospital revenue bonds (A)	\$ 5,090,000	--	(145,000)	4,945,000	170,000
Capital lease obligation (B)	496,168	--	(496,168)	--	--
Capital lease obligation (C)	--	1,473,879	--	1,473,879	226,099
	<u>\$ 758,067</u>	<u>1,473,879</u>	<u>(641,168)</u>	<u>6,418,879</u>	<u>396,099</u>

- (A) The Medical Center issued \$5,090,000 of Series 2007 Hospital Revenue Bonds. The proceeds of these bonds were used to pay construction and renovation costs. The Series 2007 bonds bear interest at rates ranging from 3.95% to 4.90% payable semi-annually. Annual principal payments are due in amounts ranging from \$180,000 to \$380,000 through December 1, 2027.
- (B) Capital lease obligation at 3.12% interest, payable in monthly installments of \$23,485, collateralized by leased equipment.
- (C) Capital lease obligation at 2.46% interest, payable in quarterly installments of \$66,500 through April 2015, collateralized by leased equipment.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2010 and 2009

Scheduled principal and interest repayments on long-term debt obligation are as follows:

<u>Year</u>	<u>Long-Term Debt</u>	<u>Capital Lease Obligation</u>
2011	180,000	266,002
2012	185,000	266,002
2013	195,000	266,002
2014	200,000	266,002
2015	210,000	266,002
2016 – 2020	1,200,000	--
2021 – 2025	1,510,000	--
2026 – 2028	1,095,000	--
	<u>\$ 4,775,000</u>	<u>1,330,010</u>
Less amount representing interest under capital lease obligations		<u>82,230</u>
		<u>\$ 1,247,780</u>

Assets recorded under capital leases consist of fixed and major moveable equipment items and building components with totals as follows:

	<u>2010</u>	<u>2009</u>
Cost	\$ 2,108,677	2,082,641
Less: Accumulated amortization	<u>(1,825,518)</u>	<u>(1,703,360)</u>
Net book value	<u>\$ 283,159</u>	<u>379,281</u>

(7) Pension and Retirement Benefits

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the Hospital is required to contribute 6.65% of annual covered salary. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2010 and 2009 were \$963,940 and \$870,287, respectively.

(8) Affiliated Organization

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salaries and benefits. The Hospital also pays Trinity a monthly fee. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2010 and 2009

The following is a list of year end balances and transactions between the Hospital and these affiliates for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Fees to affiliate for personnel and services	\$ <u>271,456</u>	<u>237,996</u>

(9) Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore, no related liability has been accrued. The Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the three years ended June 30, 2010.

(10) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$4,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

(11) Foundation

Buena Vista Regional Medical Center Foundation (Foundation) was established to raise funds exclusively for the benefit of the Hospital. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Hospital as required to comply with the purposes specified by donors. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore, the Foundation is not reported with the Hospital under GASB Statement 39.

A summary of the Foundation's assets, liabilities and fund balance, based on a modified cash basis, as of June 30, 2010 and 2009 follows:

	<u>(Unaudited)</u>	
	<u>2010</u>	<u>2009</u>
Assets	\$ <u>3,176,524</u>	<u>1,486,783</u>
Net assets	\$ <u>3,167,174</u>	<u>1,375,753</u>

The Hospital received \$-0- and \$161,489 from the Foundation during the year ended June 30, 2010 and 2009, respectively, for the purchase of property and equipment. As of June 30, 2010, the Foundation has no pledges receivable related to Hospital projects.

(12) Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claim in excess of the limits. At June 30, 2010 and 2009, the Hospital has accumulated funds in excess of actual claims paid of \$306,011 and \$460,173, respectively. These funds, shown under cash, are to be used to pay claims as they are filed in the future. The amount of unpaid claims at June 30, 2010 and 2009 was \$242,000.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2010 and 2009

(13) Physician Recruitment

The Hospital has made physician income guarantee agreements as well as various recruitment and relocation advances to recruit needed physicians to the community of Storm Lake, Iowa. All monies advanced under these agreements will be forgiven over a two to three year period in which the physicians practice in the community. Advances must be repaid with interest if the physician fails to fulfill their contract responsibilities.

The following illustrates amounts advanced under these agreements and applicable amortization expense for 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Recruitment and relocation advances -		
Beginning of year	\$ 21,920	149,504
Advances	--	592
Interest applied	--	--
Amortization	<u>(21,920)</u>	<u>(128,176)</u>
End of Year	<u>\$ --</u>	<u>21,920</u>

Recruitment and relocation advances are included with other receivables in the balance sheet.

(14) Contingencies

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters are adequately reserved for and will be resolved without material adverse effect on the Hospital's financial position or results from operations.

Buena Vista Regional Medical Center

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets Budget and Actual (Cash Basis)

For the Year Ended June 30, 2010

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable
Amount raised by taxation	\$ 348,213	--	348,213	336,176	12,037
Estimated other revenues / receipts	39,667,786	(1,437,929)	38,229,857	40,661,824	(2,431,967)
Expenses / Disbursements	<u>34,911,843</u>	<u>1,830,020</u>	<u>36,741,863</u>	<u>40,718,224</u>	<u>3,976,361</u>
Net	5,104,156	(3,267,949)	1,836,207	279,776	<u>\$ 1,556,431</u>
Balance beginning of year	<u>43,722,576</u>	<u>(17,079,145)</u>	<u>26,643,431</u>	<u>29,069,776</u>	
Balance end of year	<u>\$ 48,826,732</u>	<u>(20,347,094)</u>	<u>28,479,638</u>	<u>29,349,552</u>	

Notes to the required supplementary information – Budgetary reporting:

This budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from Buena Vista Regional Medical Center preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2010, the Hospital's expenditures did not exceed the amount budgeted.

Schedules of Patient Service Revenue For the Years Ended June 30, 2010 and 2009

	2010						2009					
	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total
DAILY PATIENT SERVICES:												
Medical and surgical	\$ 1,776,244	186,712	--	--	39,680	2,002,636	1,813,992	122,881	--	--	38,077	1,974,950
Obstetric	1,232,168	--	--	--	--	1,232,168	971,462	--	--	--	--	971,462
Behavioral health	--	--	--	3,265,275	--	3,265,275	--	--	--	3,193,900	--	3,193,900
Swing Bed	--	--	198,974	--	--	198,974	--	--	186,766	--	--	186,766
Coronary care	431,313	--	--	--	--	431,313	457,075	--	--	--	--	457,075
Hospice	--	--	--	--	1,981,175	1,981,175	--	--	--	--	1,004,019	1,004,019
	<u>3,439,725</u>	<u>186,712</u>	<u>198,974</u>	<u>3,265,275</u>	<u>2,020,855</u>	<u>9,111,541</u>	<u>3,242,529</u>	<u>122,881</u>	<u>186,766</u>	<u>3,193,900</u>	<u>1,042,096</u>	<u>7,788,172</u>
OTHER NURSING SERVICES:												
Maternal child care	--	12,336	--	--	--	12,336	--	9,765	--	--	--	9,765
Operating and recovery room	4,260,850	6,314,698	--	--	--	10,575,548	3,951,941	5,188,729	--	--	--	9,140,670
Delivery and labor room	--	302,607	--	--	--	302,607	--	157,977	--	--	--	157,977
Medical and surgical supplies	802,828	491,639	4,059	--	4,105	1,302,631	275,705	356,990	2,861	65	364	635,985
Emergency services	4,491	2,611,089	--	--	315	2,615,895	16,781	2,407,557	--	545	--	2,424,883
Outpatient service	99,435	1,658,680	6,550	6,036	306	1,771,007	98,685	1,990,179	7,270	6,039	1,089	2,103,262
Homecare	--	413,584	--	--	--	413,584	--	400,461	--	--	--	400,461
Private duty nursing	--	44,947	--	--	--	44,947	--	56,096	--	--	--	56,096
Cardiac Rehabilitation	--	130,642	--	--	--	130,642	--	143,586	--	--	--	143,586
	<u>5,167,604</u>	<u>11,980,222</u>	<u>10,609</u>	<u>6,036</u>	<u>4,726</u>	<u>17,169,197</u>	<u>4,343,112</u>	<u>10,711,340</u>	<u>10,131</u>	<u>6,649</u>	<u>1,453</u>	<u>15,072,685</u>
OTHER PROFESSIONAL SERVICES:												
Anesthesiology	242,681	665,444	--	--	--	908,125	223,240	588,655	--	--	--	811,895
Radiology	105,000	3,350,452	5,315	9,321	968	3,471,056	100,429	3,254,755	7,176	11,669	266	3,374,295
Ultrasound	182,073	945,911	986	256	1,176	1,130,402	195,582	912,922	3,955	--	286	1,112,745
Nuclear medicine	76,944	1,611,747	1,225	--	--	1,689,916	70,161	1,487,609	1,590	--	--	1,559,360
CT scans	239,430	2,127,433	8,481	3,076	--	2,378,420	229,732	1,823,930	6,308	2,498	--	2,062,468
Laboratory	786,927	2,571,227	62,904	223,353	12,293	3,656,704	748,202	2,460,965	52,104	216,887	3,019	3,481,177
Blood administration	123,970	142,159	6,020	947	8,114	281,210	133,094	104,025	9,449	2,099	--	248,667
Pharmacy	2,063,693	10,178,727	259,827	856,767	425,865	13,784,879	1,845,557	9,564,417	219,492	808,411	48,446	12,486,323
Electrocardiology	103,562	451,742	957	9,664	143	566,068	106,233	446,935	1,827	9,723	138	564,856
Electroencephalography	1,970	565,547	--	--	--	567,517	4,013	522,923	--	--	--	526,936
Physical therapy	145,636	1,174,591	81,609	22,777	3,988	1,428,601	145,809	1,108,417	84,321	14,982	598	1,354,127
Respiratory therapy	1,137,011	102,837	184,958	58,636	18,615	1,502,057	1,214,851	80,333	209,566	75,260	30,758	1,610,768
Ambulance	86,973	936,215	4,728	386	6,716	1,035,018	96,357	885,316	374	2,404	1,329	985,780
ER Physicians	1,255	1,573,837	--	--	193	1,575,285	5,372	1,534,229	--	488	--	1,540,089
Cardiopulmonary	6,330	232,068	200	1,817	--	240,415	12,122	177,390	97	1,552	--	191,161
Occupational therapy	59,072	402,921	39,904	2,727	993	505,617	47,418	374,741	35,591	702	--	458,452
Speech therapy	10,051	34,542	3,279	3,133	287	51,292	11,235	30,184	3,503	3,493	--	48,415
Oncology	--	868,892	--	--	2,806	871,698	578	761,542	--	--	--	762,120
Dietary	--	14,619	--	--	--	14,619	--	6,227	--	--	--	6,227
Diabetic education	--	47,914	--	--	--	47,914	54	52,296	--	--	--	52,350
Infection Control	--	378	--	--	--	378	--	232	--	--	--	232
	<u>5,372,578</u>	<u>27,999,203</u>	<u>660,393</u>	<u>1,192,860</u>	<u>482,157</u>	<u>35,707,191</u>	<u>5,190,039</u>	<u>26,178,043</u>	<u>635,353</u>	<u>1,150,168</u>	<u>84,840</u>	<u>33,238,443</u>
Gross patient service revenue	\$ <u>13,979,907</u>	<u>40,166,137</u>	<u>869,976</u>	<u>4,464,171</u>	<u>2,507,738</u>	<u>61,987,929</u>	<u>12,775,680</u>	<u>37,012,264</u>	<u>832,250</u>	<u>4,350,717</u>	<u>1,128,389</u>	<u>56,099,300</u>
LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE												
Contractual allowances and other deductions, primarily Medicare and Medicaid						(21,806,711)						(20,816,144)
Charity care services and other discounts, based on charges forgone						(737,944)						(642,395)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT						<u>39,443,274</u>						<u>34,640,761</u>
Provision for bad debt						(1,599,184)						(1,557,427)
NET PATIENT SERVICE REVENUE						<u><u>37,844,090</u></u>						<u><u>33,083,334</u></u>

Other Operating Revenue
For the Years Ended June 30, 2010 and 2009

	2010	2009
Insurance proceeds	\$ 350,000	--
Cafeteria	314,457	301,517
Rental income	293,130	291,007
School nurse	170,151	182,177
Fitness center	121,491	135,925
Purchasing rebates	97,720	161,076
Lifeline	67,718	70,993
Grants	65,547	151,230
Miscellaneous	51,652	22,733
Coffee shop	30,916	29,791
Contracted revenue	3,986	4,613
Vending machines	2,328	2,948
Meals on wheels	324	5,630
	<u>\$ 1,569,420</u>	<u>1,359,640</u>

Buena Vista Regional Medical Center

Exhibit 3

Departmental Expenses For the Years Ended June 30, 2010 and 2009

	2010				2009			
	Salaries and Wages	Professional Fees and Purchased	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Nursing Administration	\$ 125,028	--	40,870	165,898	122,338	--	40,506	162,844
Medical and Surgical	1,451,672	--	497,741	1,949,413	1,447,485	--	467,002	1,914,487
Obstetric	807,667	632	351,435	1,159,734	775,429	550	406,790	1,182,769
Behavioral Health	810,253	113,793	266,592	1,190,638	804,330	113,897	255,086	1,173,313
Coronary Care	407,238	--	138,631	545,869	348,929	--	112,905	461,834
Hospice	318,406	31,375	470,063	819,844	281,752	15,812	192,132	489,696
Operating and Recovery Room	529,460	2,400	1,237,382	1,769,242	477,559	2,400	782,084	1,262,043
Medical and Surgical Supplies	68,959	--	1,428,187	1,497,146	71,323	--	999,488	1,070,811
Emergency Services	1,045,266	--	382,588	1,427,854	1,079,511	--	395,730	1,475,241
Outpatient Services	605,015	2,034	430,446	1,037,495	596,515	1,115	345,880	943,510
Homecare	439,409	--	188,173	627,582	410,575	--	168,494	579,069
Private Duty Nurses	29,530	--	17,395	46,925	35,885	--	19,932	55,817
Cardiac Rehabilitation	125,161	--	41,675	166,836	111,178	--	38,392	149,570
Lifeline	3,445	--	49,831	53,276	3,811	--	50,365	54,176
School	134,093	--	37,977	172,070	158,356	--	44,004	202,360
	6,900,602	150,234	5,578,986	12,629,822	6,724,976	133,774	4,318,790	11,177,540
OTHER PROFESSIONAL SERVICES:								
Anesthesiology	--	--	82,060	82,060	--	--	48,577	48,577
Radiology	702,214	755,159	583,504	2,040,877	708,936	765,204	529,877	2,004,017
Ultrasound	--	5,070	34,302	39,372	--	7,110	29,246	36,356
Nuclear Medicine	--	65,121	90,761	155,882	--	321,887	77,681	399,568
CT Scans	--	--	99,399	99,399	--	--	88,377	88,377
Laboratory	632,975	238,562	554,368	1,425,905	601,212	207,824	508,525	1,317,561
Blood Administration	--	--	190,408	190,408	--	--	151,918	151,918
Pharmacy	276,320	--	3,220,112	3,496,432	323,687	--	3,060,156	3,383,843
Electrocardiology	37,415	20,365	33,518	91,298	38,629	14,720	27,524	80,873
Electroencephalography	73,959	--	42,825	116,784	70,691	--	36,346	107,037
Physical Therapy	576,749	4,821	206,204	787,774	516,737	150,591	844,826	1,412,154
Respiratory Therapy	212,119	--	162,228	374,347	210,579	--	151,960	362,539
Ambulance	161,277	--	126,751	288,028	83,726	--	94,559	178,285
ER Physicians	--	1,141,920	1,047	1,142,967	--	1,110,356	7,487	1,117,843
Cardiopulmonary	24,965	--	26,142	51,107	31,972	--	20,838	52,810
Occupational Therapy	190,374	1317	66,875	258,566	160,780	11,104	54,738	226,622
Speech Therapy	728	32,099	361	33,188	560	25,009	153	25,722
Oncology	375,531	--	147,040	522,571	377,419	--	133,592	511,011
Fitness Center	170,275	--	87,773	258,048	172,739	--	89,367	262,106
Medical Records	320,192	--	262,684	582,876	324,999	--	245,126	570,125
Specialty Clinics	48,251	--	39,446	87,697	51,170	--	51,046	102,216
Women's Center	98,810	--	36,473	135,283	97,615	--	35,646	133,261
Diabetic education	75,037	--	25,737	100,774	83,331	--	30,074	113,405
Infection control	126,350	--	70,287	196,637	131,580	--	73,482	205,062
	4,103,541	2,264,434	6,190,305	12,558,280	3,986,362	2,613,805	5,723,793	12,323,960
GENERAL SERVICES:								
Dietary	477,741	--	561,699	1,039,440	417,088	--	516,449	933,537
Plant	297,788	--	679,762	977,550	264,728	--	611,859	876,587
Housekeeping	441,810	--	175,763	617,573	421,417	--	164,388	585,805
Laundry and Linen	164	--	100,122	100,286	43	--	100,771	100,814
	1,217,503	--	1,517,346	2,734,849	1,103,276	--	1,393,467	2,496,743
ADMINISTRATIVE SERVICES:	2,265,321	319,687	1,718,895	4,303,903	2,007,321	381,404	1,628,460	4,017,185
NONDEPARTMENTAL:								
Depreciation and Amortization	--	--	2,397,964	2,397,964	--	--	1,964,732	1,964,732
Insurance	--	--	192,860	192,860	--	--	176,630	176,630
Interest	--	--	94,165	94,165	--	--	9,817	9,817
	--	--	2,684,989	2,684,989	--	--	2,151,179	2,151,179
TOTAL EXPENSES	\$ 14,486,967	2,734,355	17,690,521	34,911,843	13,821,935	3,128,983	15,215,689	32,166,607

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2010 and 2009

ANALYSIS OF AGING:

Days Since Discharge	2010		2009	
	Amount	Percent of Total	Amount	Percent of Total
0 - 60	\$ 7,325,318	74.49 %	7,174,334	72.21 %
61 - 120	1,186,013	12.06	1,290,183	12.99
121 - 180	513,236	5.22	685,097	6.90
181 - and over	809,716	8.23	785,353	7.90
	<u>9,834,283</u>	100.00 %	<u>9,934,967</u>	100.00 %
Less:				
Allowance for doubtful accounts	(1,791,000)		(1,860,236)	
Allowance for contractual adjustments	<u>(3,157,000)</u>		<u>(2,947,000)</u>	
	<u>\$ 4,886,283</u>		<u>5,127,731</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ 1,860,236		1,258,000	
Provision of uncollectible accounts	1,599,184		1,557,427	
Recoveries of accounts previously written off	349,345		342,449	
Accounts written off	<u>(2,017,765)</u>		<u>(1,297,640)</u>	
Balance, end of year	<u>\$ 1,791,000</u>		<u>1,860,236</u>	

Inventory / Prepaid Expenses
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
INVENTORY:		
Pharmacy	\$ 372,871	295,304
Central service	268,867	277,606
Surgery	<u>365,349</u>	<u>363,309</u>
	<u>\$ 1,007,087</u>	<u>936,219</u>
 PREPAID EXPENSES:		
Insurance	\$ 59,165	48,975
Service contracts	126,002	113,492
Dues	74,577	46,064
Other	<u>51,144</u>	<u>43,606</u>
	<u>\$ 310,888</u>	<u>252,137</u>

Financial Statistical Highlights
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Patient days:		
Hospital -		
Adult and pediatric	4,033	4,033
Newborn	699	550
Swing bed - skilled	689	683
Hope Harbor	<u>3,350</u>	<u>3,362</u>
	<u>8,771</u>	<u>8,628</u>
Discharges:		
Hospital adult and pediatric	<u>1,350</u>	<u>1,296</u>
Average length of stay:		
Hospital adult and pediatric	2.99	3.11
Observation visits	375	276
Surgical procedures	3,330	3,229
Emergency Room visits	7,248	7,954
Full-time equivalents personnel	322.49	319.53

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Board of Trustees of
Buena Vista Regional Medical Center
Storm Lake, Iowa:

We have audited the financial statements of Buena Vista Regional Medical Center (Hospital), as of and for the year ended June 30, 2010, and have issued our report thereon dated November 18, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item II-A-10, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Buena Vista Regional Medical Center, and other parties to whom Buena Vista Regional Medical Center may report. This report is not intended to and should not be used by anyone other than those specified parties.

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
November 18, 2010.

Buena Vista Regional Medical Center

Schedule of Findings and Questioned Costs June 30, 2010

Part I: Summary of the Independent Auditor's Results

- a. An unqualified opinion was issued on the financial statements.
- b. One significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance

No matters were reported.

Significant Deficiency

II-A-10

<i>Criteria:</i>	The design or operation of the Hospital's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.
<i>Condition:</i>	We identified misstatements in the financial statements during the audit that were not initially identified by the Hospital's internal controls.
<i>Effect:</i>	Audit entries were required to adjust the net realizable value of accounts receivable and the allowance for doubtful accounts.
<i>Cause:</i>	Allowance balances requiring estimation and judgment were incorrectly recorded.
<i>Recommendation:</i>	The Hospital should review and revise its estimation process of the stated allowance accounts to ensure that financial statements are properly stated.
<i>Response:</i>	The Hospital concurs with the recommendation.
<i>Conclusion:</i>	Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

III-A-10

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2010.

III-B-10

Certified Budget: Hospital disbursements during the year ended June 30, 2010, did not exceed budgeted amounts.

Buena Vista Regional Medical Center

Schedule of Findings and Questioned Costs June 30, 2010

III-C-10

Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of the public purpose as defined in the attorney General's opinion dated March 12, 1975. The expense was as follows:

Paid To	Purpose	Amount
Various organizations	Employee recognition banquet	\$16,549

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Hospital feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated March 12, 1975.

Conclusion: Response accepted.

III-D-10

Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

III-E-10

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said hospital to \$1,500 without publicly invited and opened written competitive bids.

III-F-10

Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-10

Deposits and Investments:

Questionable Expenditures: Chapter 12B and Chapter 12C of the Code of Iowa require a written resolution that specifically name each depository institution and specify the maximum amount to be kept on deposit in each depository. During the audit, we noted two instances where the Medical Center had funds at depositories that were not specifically listed on the depository resolution approved by the Board of Trustees

Recommendation: We recommend that management revise, and the Board of Trustees approve, the depository resolution to include the two excluded depositories.

Response: Management has amended the existing depository resolution to include the excluded depositories and will request Board of Trustee approval at the next available board meeting.

Conclusion: Response accepted.

Buena Vista Regional Medical Center

**Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2010**

Finding	Status	Corrective Action Plan or Other Explanation
II-A-09	Allowance estimation and review process	Unresolved, similar finding reported at II-A-10

Buena Vista Regional Medical Center

Audit Staff

For the Year Ended June 30, 2010

This audit was performed by:

- Brian D. Green, FHFMA, CPA, Partner
- Jeremy J. Behrens, CHFP, CPA, Manager
- Becky S. Hoffman, Staff Auditor
- Brandon W. Arp, Staff Auditor